Article 29.

Invention Development Services.

§ 66-209. Definitions.

As used in this Article, the following terms shall have the meanings given:

(1) "Contract" or "contract for invention development services" means a contract by which an invention developer undertakes invention development services for a customer for a stated payment or consideration, whether or not the payment or consideration has yet been made.

(2) "Customer" means any natural person who is solicited by, inquires about, seeks the services of, or enters into a contract with an invention developer for invention development services.

(3) "Invention development services" means any act done by or for an invention developer for the procurement or attempted procurement by the invention developer of a licensee or buyer of an intellectual property right in an invention. The term includes the evaluation, perfecting, marketing, brokering, or promoting of an invention, a patent search, and preparation or prosecution of a patent application by a person not registered to practice before the United States Patent and Trademark Office.

(4) "Invention" means any discovery, process, machine, design, formulation, composition of matter, product, concept, or idea, or any combination of these.

(5) "Invention developer" is an individual, firm, partnership, or corporation, or an agent, employee, officer, partner, or independent contractor of one of those entities, that offers to perform or performs invention development services for a customer and that is not:

a. A department or agency of the federal, State, or local government;

b. A charitable, scientific, educational, religious, or other organization qualified under G.S. 105-130.9 or described in Section 170(b)(1)(A) of the Internal Revenue Code of 1986, as amended;

c. A person registered before the United States Patent and Trademark Office acting solely within the scope of that person's professional license;

d. A person, firm, corporation, association, or other entity that does not charge a fee, including reimbursement for expenditures made or costs incurred by the entity, for invention development services other than payment made from a portion of the income received by a customer by virtue of the acts performed by the entity; or

e. An attorney licensed to practice law in North Carolina acting solely within the scope of that person's professional license.

(6) "Business day" means any day other than a Saturday, Sunday, or legal holiday. (1989, c. 746, s. 1; c. 770, s. 62.1(1), (2); 1991, c. 235, s. 1.)

§ 66-210. Disclosures made prior to contract.

In either the first written communication from the invention developer to a specific customer, or at the first personal meeting between the invention developer and a customer whichever may first occur, the invention developer shall make a written disclosure to the customer of the information required in this section which includes:

(1) The median fee charged to all of the invention developer's customers who have signed contracts with the developer in the preceding six months, excluding customers who have signed in the preceding 30 days;

(2) A single statement setting forth (i) the total number of customers who have contracted with the invention developer, except that the number need not reflect those customers who have contracted within the preceding 30 days, and (ii) the number of customers who have received, by virtue of the invention developer's performance of invention development services, an amount of money in excess of the amount of money paid by those customers to the invention developer pursuant to a contract for invention development services;

(3) The following statement: "Unless the invention developer is a lawyer or person registered before the United States Patent and Trademark Office, he is NOT permitted to give you legal advice concerning patent, copyright, trademark law, or the law of unfair competition or to advise you of whether your idea or invention may be patentable or may be protected under the patent, copyright, or trademark laws of the United States, or any other law. No patent, copyright, or trademark protection will be acquired for you by the invention developer. Your failure to inquire into the law governing patent, trademark, or copyright matters may jeopardize your rights in your idea or invention, both in the United States and in foreign countries. Your failure to identify and investigate existing patents, trademarks, or registered copyrights may place you in jeopardy of infringing the copyrights, patent, or trademark rights of other persons if you proceed to make, use, distribute, or sell your idea or invention." (1989, c. 746, s. 1; c. 770, s. 62.1(1), (2); 1991, c. 235, s. 1.)

§ 66-211. Standard provisions for cover notice.

(a) A contract for invention development services must have a conspicuous and legible cover sheet attached. The cover sheet must set forth:

(1) The name, home address, office address, and local address of the invention developer; and

(2) The following notice printed in bold-faced type of not less than 10-point size:

THIS CONTRACT BETWEEN YOU AND AN INVENTION DEVELOPER IS REGULATED BY ARTICLE 29 OF CHAPTER 66 OF THE GENERAL STATUTES OF THE STATE OF NORTH CAROLINA. YOU ARE NOT PERMITTED OR REQUIRED TO MAKE ANY PAYMENTS UNDER THIS CONTRACT UNTIL FOUR WORKING DAYS AFTER YOU SIGN THIS CONTRACT AND RECEIVE A COMPLETED COPY OF IT.

YOU CAN TERMINATE THIS CONTRACT AT ANY TIME BEFORE YOU MAKE PAYMENT. YOU CAN TERMINATE THIS CONTRACT SIMPLY BY NOT SUBMITTING PAYMENT.

IF YOU ASSIGN EVEN A PARTIAL INTEREST IN THE INVENTION TO THE INVENTION DEVELOPER, THE INVENTION DEVELOPER MAY HAVE THE RIGHT TO SELL OR DISPOSE OF THE INVENTION WITHOUT YOUR CONSENT AND MAY NOT HAVE TO SHARE THE PROFITS WITH YOU.

THE TOTAL NUMBER OF CUSTOMERS WHO HAVE CONTRACTED WITH THE INVENTION DEVELOPER SINCE __(year)_____ IS _(number)___. THE TOTAL NUMBER OF CUSTOMERS KNOWN BY THIS INVENTION DEVELOPER TO HAVE RECEIVED BY VIRTUE OF THIS INVENTION DEVELOPER'S PERFORMANCE, AN AMOUNT OF MONEY IN EXCESS OF THE AMOUNT PAID BY THE CUSTOMER TO THIS INVENTION DEVELOPER IS __(number)_____.

YOU ARE ENCOURAGED TO CONSULT WITH A QUALIFIED ATTORNEY BEFORE SIGNING THIS CONTRACT. BY PROCEEDING WITHOUT THE ADVICE OF A QUALIFIED ATTORNEY YOU COULD LOSE ANY RIGHTS YOU MIGHT HAVE IN YOUR IDEA OR INVENTION.

(b) The invention developer shall complete the cover sheet with the proper information to be provided in the blanks. In the first blank the invention developer shall enter the year that the invention developer began business, or January 1, 1990, whichever is earlier. The numbers entered in the last two blanks need not include those who have contracted with the invention developer during the 30 days immediately preceding the date of the contract. If the number to be inserted in the third blank is zero, it must be so stated.

(c) The cover notice may not contain anything in addition to the information required by subsection (a) of this section. (1989, c. 746, s. 1; c. 770, s. 62.1(1)-(3); 1991, c. 235, s. 1.)

§ 66-212. Contracting requirements.

(a) Each contract for invention development services by which an invention developer undertakes invention development services for a customer is subject to this act. The contract must be in writing and the invention developer shall give a copy of the contract to the customer at the time the customer signs the contract.

(b) If it is the invention developer's normal practice to seek more than one contract in connection with an invention, or if the invention developer normally seeks to perform services in connection with an invention in more than one phase with the performance of each phase covered in one or more subsequent contracts, the invention developer shall give to the customer at the time the customer signs the first contract:

(1) A written statement describing that practice; and

(2) A written summary of the developer's normal terms, if any, of subsequent contracts, including the approximate amount of the developer's normal fees or other consideration, if any, that may be required from the customer.

(c) For the purposes of this section, delivery of a promissory note, check, bill of exchange, or negotiable instrument of any kind to the invention developer or to a third party for the benefit of the invention developer irrespective of the date or dates appearing in that instrument is payment.

(d) Notwithstanding any contractual provisions of [to] the contrary, payment for invention development services may not be required, made, or received before the fourth business day after the day on which the customer receives a copy of the contract for invention development services signed by the invention developer and the customer.

(e) Until the payment for invention development services is made, the parties during the contract for invention development services have the option to terminate the contract. The customer may exercise the option by refraining from making payment to the invention developer. The invention developer may exercise the option to terminate by giving to the customer written

notice of its exercise of the option. The written notice becomes effective on receipt by the customer. (1989, c. 746, s. 1; c. 770, s. 62.1(1), (2); 1991, c. 235, s. 1.)

§ 66-213. Mandatory contract terms.

(a) A contract for invention development services shall set forth the information required in this section in at least 10-point type or equivalent size if handwritten.

(b) The contract shall describe fully and in detail the acts or services that the invention developer contracts to perform for the customer.

(c) The contract shall include the terms and conditions of payment and contract termination rights required by G.S. 66-212(e).

(d) The contract shall state whether the invention developer contracts to construct one or more prototypes, models, or devices embodying the customer's invention, the number of such prototypes to be constructed, and whether the invention developer contracts to sell or distribute such prototypes, models, or devices.

(e) If an oral or written estimate of projected customer sales, profits, earnings and/or royalties is made by the invention developer, the contract shall state the estimate and the data upon which it is based.

(f) The contract shall state the expected date of completion of the invention development services, whether or not time is of the essence, and whether or not the terms include provisions in case of delay past the expected date of completion.

(g) The contract shall explain that the invention developer is required to maintain all records and correspondence relating to performance of the invention development services for that customer for a period not less than three years after expiration of the term of the contract for invention development services. Further, such records and correspondence will be made available to the customer or his representative for review and copying at the customer's expense on the invention developer's premises during normal business hours upon seven days' written notice, the time period to begin from the date the notice is placed in the United States mail properly addressed and first class postage prepaid.

(h) The contract shall state the name of the person or firm contracting to perform the invention development services, all names under which said person or firm is doing or has done business as an invention developer for the previous 10 years, the names of all parent and subsidiary companies to the firm, and the names of all companies that have a contractual obligation to the firm to perform invention development services.

(i) The contract shall state the invention developer's principal business address and the name and address of its agent in this State who is authorized to receive service of process in North Carolina. (1989, c. 746, s. 1; c. 770, ss. 62.1(1), (2), (4); 1991, c. 235, s. 1.)

§ 66-214. Financial requirements.

(a) Except as provided by subsection (c) of this section, each invention developer doing business in this State as defined by the North Carolina General Statutes shall maintain a bond issued by a surety company authorized to do business in this State. The principal sum of the bond must be at least five percent (5%) of the invention developer's gross income from the invention development business in this State during the invention developer's last fiscal year or twenty-five thousand dollars ($25,000), whichever is greater. The invention developer shall file a copy of the bond with the Secretary of State before the day on which the invention developer begins business

in this State. The invention developer shall have 90 days after the end of each fiscal year within which to change the bond as may be necessary to conform to the requirement of this subdivision.

(b) The bond required by subsection (a) of this section must be in favor of the State of North Carolina for the benefit of any person who, after entering into a contract for invention development services with an invention developer is damaged by fraud, dishonesty, or failure to provide the services of the invention developer in performance of the contract. Any person claiming against the bond may maintain an action at law against the invention developer and surety. The aggregate liability of the surety to all persons for all breaches of conditions of the bond required by the subsection is limited to the amount of the bond.

(c) Instead of furnishing the bond required by subsection (a) of this section, the invention developer may deposit with the Secretary of State a cash deposit equal to the amount of the bond required by this section. The cash deposit may be satisfied by:

(1) Certificates of deposit payable to the Secretary of State issued by banks doing business in this State and insured by the Federal Deposit Insurance Corporation;
(2) Investment certificates of share accounts assigned to the Secretary of State and issued by a savings and loan association doing business in this State, and insured by the Federal Savings and Loan Insurance Corporation;
(3) Bearer bonds issued by the United States government or by this State; or
(4) Cash deposit with the Secretary of State. (1989, c. 746, s. 1; c. 770, s. 62.1(1), (2); 1991, c. 235, s. 1.)

§ 66-215. Remedies.

(a) Any contract for invention development services that does not substantially comply with this Article is voidable at the option of the customer. A contract for invention development services entered into in reliance on any false, fraudulent, or misleading information, representation, notice, or advertisement of the invention developer is voidable at the option of the customer. Any waiver by the customer of any provision of this act shall be deemed contrary to public policy and shall be void and unenforceable.

(b) Any customer or person who has been injured by a violation of this Article by an invention developer, by a false or fraudulent statement, representation, or omission of material fact by an invention developer, or by failure of an invention developer to make all disclosures required by this Article may recover in a civil action against the invention developer:

(1) Court costs;
(2) Attorneys['] fees; and
(3) The amount of actual damages, if any, sustained by the customer, which damages may be increased to an amount not to exceed three times the damages sustained. (1989, c. 746, s. 1; c. 770, s. 62.1(1), (2); 1991, c. 235, s. 1.)

§ 66-216. Enforcement.

The Attorney General shall enforce this Article and may recover a civil penalty not to exceed twenty-five thousand dollars ($25,000) for each violation of this Article and may seek equitable relief to restrain the violation of this Article. The clear proceeds of civil penalties provided for in this section shall be remitted to the Civil Penalty and Forfeiture Fund in accordance with G.S. 115C-457.2. (1989, c. 746, s. 1; c. 770, s. 62.1(1), (2); 1991, c. 235, s. 1; 1998-215, s. 97.)

§§ 66-217 through 66-219. Reserved for future codification purposes.